



Information about Rising Construction Costs in Washington State

- WSDOT's Construction Cost Index
- Trends – Number of Bidders
- Prospects for Labor Costs
- Relationship between HMA, Crude Oil, and Diesel
- Recent National Media Coverage

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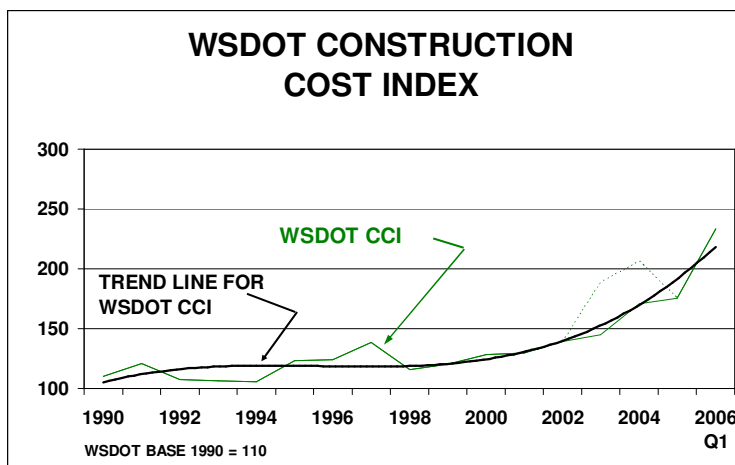
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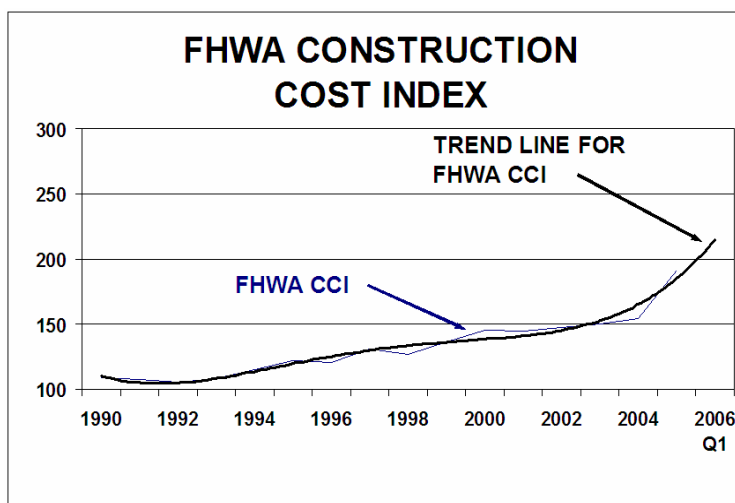


WSDOT Construction Cost Index (CCI) With FHWA and Other States Compared

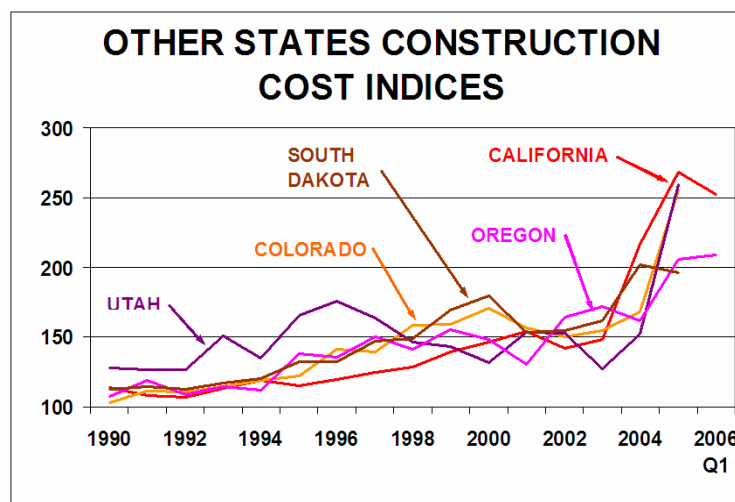
WSDOT has long maintained a “market basket” index of construction costs as drawn from bid submissions on its own projects. The trend line and quarterly data points for the WSDOT Construction Cost Index through the first quarter of 2006 are shown on the adjoining graph. Backup details are on the next two pages.



The Federal Highway Administration (FHWA) maintains a similar index using, however, different materials and different sources and methodology. The FHWA index, through the last quarter of 2005, is shown as a smooth line on the adjoining graph.



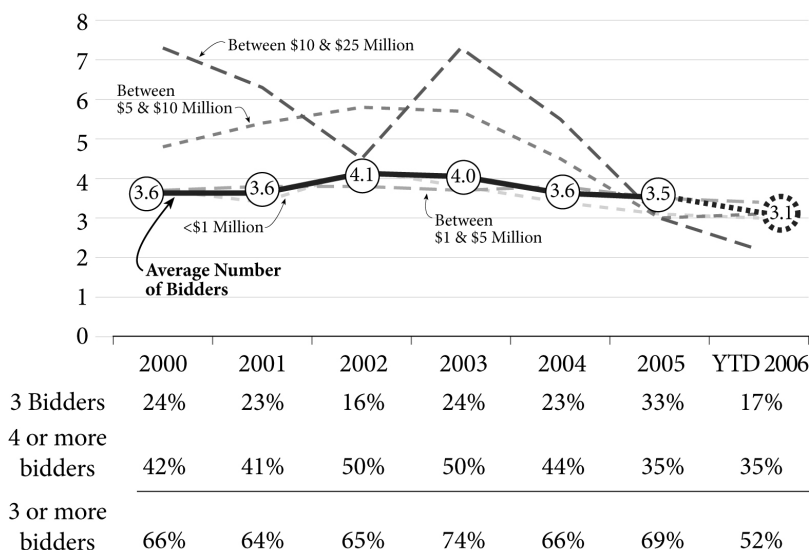
Several other states maintain indices of a similar kind, although there is no common methodology. Results from several of the states generally track with the WSDOT and FHWA indices. See the adjoining graph.



* Index reflects unit and bid prices which include labor, equipment, and materials.

Number of Bidders for WSDOT Construction Projects: Trends Since 2000

Average Number of Bidders By Size of Contract



Analysis

- With the large construction program in Washington and national infrastructure rebuilding underway, the number of contractors bidding is trending *downward*, diminishing competition tending toward good bid prices.
- The percent of contracts bid on by at least four firms has decreased from 50% in 2002-03 to about 35% YTD in 2006.
- These trends have been observed by other owners in Washington State and in other states around the country.

WSDOT *does* influence:

- Fair and efficient practices and risk allocating in contract administration.
- Communicating current and future job opportunities and bid advertisement schedules to promote competitive environment. This includes providing special outreach on unusual or difficult projects
- Specifications on which contractors can confidently prepare bids. and a fair process for responding to bidder's questions.

WSDOT *does not* influence:

- Overall volume of public and private sector work seeking contractors or their access to key subcontractors and construction material.
- Bonding and other capacity constraints affecting contractors' appetite for work.
- Market trends in the construction industry towards consolidation and shrinkage of the number of local firms, especially in subcontracting specialists.

Implications for Specific Projects: Examples

SR 543, I-5 to International Boundary (January 18, 2006)

There were two bidders with prices ranging from \$27.3 million to \$28.6 million. The low bid was 22.3% (\$5 million) over the Engineer's Estimate of \$22.3 mi.

- Most of the excess over the estimate was retaining walls, noise walls, barrier and pavement (concrete) and Hot Mix Asphalt. The lack of competition is attributed to the geographical location and mix of work.

SR 7, SR 507 to SR 512 – Safety (July 27, 2005)

The project had three bidders. The low bid was 24% (\$2.6 million) over the Engineer's Estimate of \$10.8 million.

- Most of the excess over the estimate was haul items (fuel costs and a congested work area), and curbs, islands and sidewalks (concrete prices).



Prospects for Labor Costs

May 25, 2006

Labor costs contribute roughly 40% to contractor costs for the delivery of a typical WSDOT highway construction project. There is significant variation in this percentage based on the specific character of the project.

Hourly salary rates as well as pension and benefit costs are generally established by reference to master agreements negotiated with the trades by the Associated General Contractors, for the five major construction trades (laborers, teamsters, carpenters, cement masons, and operators). These master agreements are negotiated on the west side of the state by the AGC of Washington and on the east side of the state by AGC Inland Northwest Chapter, with the Oregon Chapter handling the five southwest counties of the state.

Master agreements for the east side of the state are set to expire this year, and the Inland Northwest Chapter is currently in negotiations on these agreements, while the agreements on the west side of the state expire next year.

In recent weeks, WSDOT sources in industry have advised us of industry's expectation of significant upward cost pressure. In the recent past, labor contract negotiations have been relatively flat, with respect to wages, leaving the majority of the discussion to center around the benefits package, comprised of healthcare and retirement. Wayne Brokaw, Executive Director of the Inland Northwest Chapter of the AGC, told us that this year negotiations will be different. Wages, healthcare and retirement will all be major issues brought to the table.

AGC of Washington is also expecting to see increases as they begin their contract negotiations next year. Roland Dewhurst, Chief Executive Officer of the AGC of Washington, informed us that the upward pressures on wages and healthcare as well as labor shortages will play a significant role in the cost of projects for several years to come.

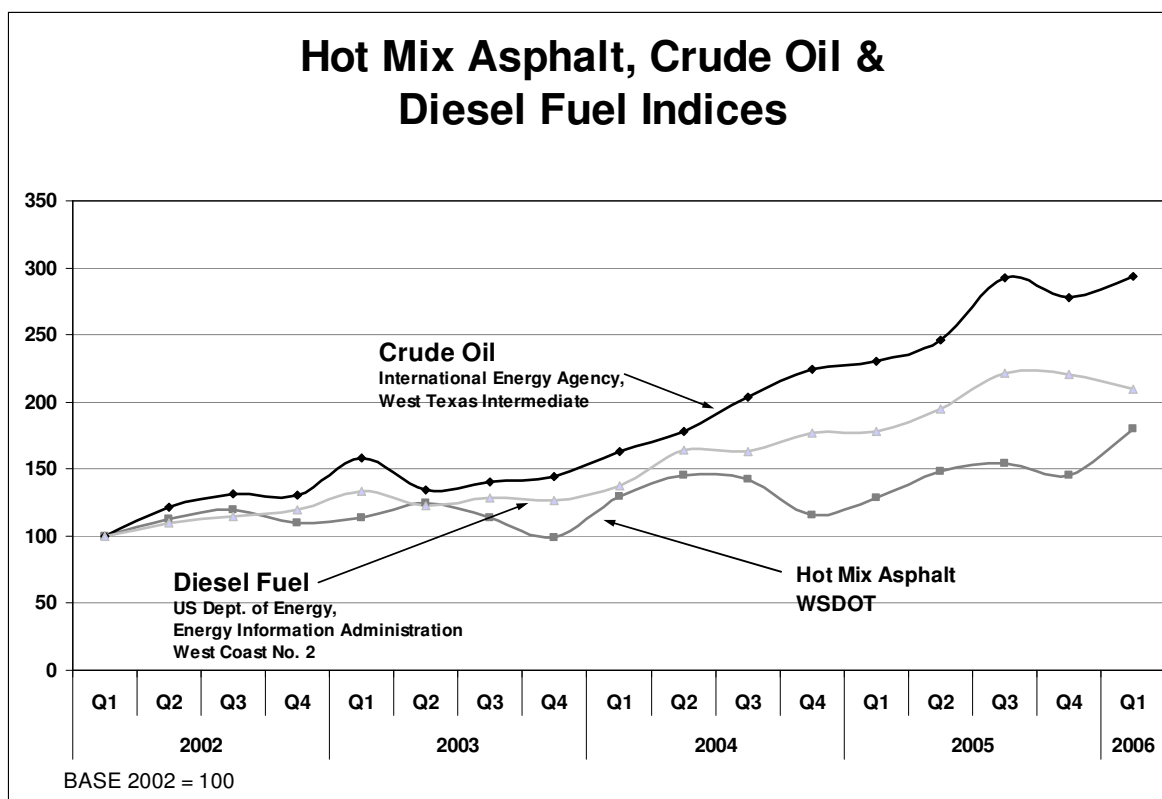
In a booming construction market such as we are currently experiencing, there are other factors that affect the price of a project. For instance, with potential labor shortages, contractors can face a "premium charge" in addition to the labor package in the contract just to attract and retain a qualified workforce. Other labor-related costs also enter into the overall cost of the project, such as transportation costs to get the workers to and from the project site, as well as temporary lodging costs or per diem allowances associated with bringing workers to the projects.

Construction labor costs are incorporated into a contractor's pricing of construction costs. In addition, shortages and significant salary and benefit run-ups are being seen in the rates of private engineering consulting firms that are engaged by WSDOT for outsourced design and other professional consulting services.

There is no systematic tool currently available to WSDOT to predict the exact magnitude of forthcoming inflationary cost pressures arising from collective bargaining for the construction trades and the general labor market rates for engineering consultant services.

Hot Mix Asphalt Price Experience Tracked Against Crude Oil & Diesel Fuel Costs

Crude oil and diesel fuel prices have been increasing more than HMA in the past but that gap is now closing. This may be due to contractors no longer able to lock-in prices from the supplier due to volatility in the current market conditions.





Rising Construction Costs – Recent National Media Coverage of Rising Highway Construction Costs and Impacts

“Rising costs of oil cause cut in road construction”

